

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF DELAWARE

In Re:)
)
THE PROPOSED AFFILIATION OF) Docket No. 1509-10
BCBSD, INC., DOING BUSINESS)
AS BLUE CROSS BLUE SHIELD)
OF DELAWARE, WITH HIGHMARK)
INC.)

TRANSCRIPT OF PUBLIC INFORMATION SESSION

Carvel State Building
820 N. French Street - 2nd Floor
Wilmington, Delaware
May 19, 2011
6:00 p.m.

HEARD BEFORE: GENE REED, Deputy Insurance
Commissioner

APPEARANCES:

MICHAEL HOUGHTON, ESQ. - Counsel to the
Department of Insurance
LINDA SIZEMORE - Department of Insurance
MARTIN ALDERSON SMITH - The Blackstone Group
- Department of Insurance
TIMOTHY J. CONSTANTINE - BCBS Delaware
DR. KENNETH MELANI - Highmark Inc.

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1 DEPUTY COMMISSIONER REED: Good
2 evening, and welcome to the May 19th Delaware
3 Insurance Department's public information session
4 on the proposed affiliation between Blue Cross
5 Blue Shield of Delaware and Highmark. My name is
6 Gene Reed. I'm the Deputy Insurance Commissioner
7 of the State of Delaware.

8 The final adjudicator in the matter
9 is the Commissioner, Karen Weldin Stewart, who
10 will make the ultimate decision to approve or
11 disapprove the proposed affiliation.

12 To my immediate right is Linda
13 Sizemore, director of company regulation. To my
14 left is Mike Houghton, counsel to the Delaware
15 Department of Insurance, and Martin Alderson
16 Smith, financial advisor to the Delaware
17 Department of Insurance.

18 Blue Cross Blue Shield of Delaware,
19 which we will call BCBSD, and Highmark, submitted
20 a filing pursuant to the requirements of Chapter
21 50 of Title 18, the Delaware Insurance Holding
22 Company Registration Act and the Department's
23 administrative regulation pertaining to the
24 registration of insurance holding companies.

1 The Department has been examining
2 and reviewing the filing, and will continue to do
3 so in the coming weeks and months.

4 The purpose of today's session is
5 not to reach a decision on the proposed
6 affiliation. The purpose of today's session is
7 for the Department of Insurance to receive
8 comments from the public to aid in the Department
9 ultimately reaching a decision on the proposed
10 affiliation.

11 In reaching its decision, the
12 Department will pay particular attention to the
13 public's comments about the proposed affiliation,
14 including the comments presented here tonight.

15 The entire record concerning the
16 proposed affiliation, including the transcript of
17 tonight's session, will be reviewed by the
18 Department before the Department reaches any
19 final conclusion.

20 The publicly-available portion of
21 the record has been and will continue to be
22 available on the Department's internet website
23 and at the Department's offices in Dover and
24 Wilmington.

1 If you do not have internet access,
2 you may inspect the files at the Department's
3 offices and request copies. You may also submit
4 a request for copies of particular documents by
5 fax or e-mail.

6 In addition, there is an index of
7 all the documents which are contained in the
8 public files. Copies of the public file index
9 are available for inspection in the back of the
10 room. The public file index is also available on
11 the Department's website at
12 www.delawareinsurance.gov.

13 Given the significance of this
14 proposed affiliation to the Delaware public, and
15 as is common for such significant transactions,
16 the Department has hired outside legal advisors,
17 the law firm Morris, Nichols, Arsht & Tunnell,
18 LLP, and outside financial advisors, the advisory
19 firm The Blackstone Group.

20 Mike Houghton of Morris Nichols will
21 now introduce himself, and then Martin Alderson
22 Smith of Blackstone will introduce himself.

23 MR. HOUGHTON: Thank you, Deputy
24 Commissioner. My name is Mike Houghton. I am

1 counsel to the Delaware Department of Insurance
2 in this matter, a partner at the Wilmington law
3 firm of Morris, Nichols, Arsht & Tunnell, LLP.
4 I'd like to welcome everyone here tonight, as
5 well.

6 Morris Nichols is, as I've noted, a
7 Delaware law firm located in Wilmington. We have
8 previously represented the Department of
9 Insurance on applications of the same type as the
10 proposed affiliation between BCBSD and Highmark.

11 Our job is to assist the Department
12 with its review, including by providing legal
13 advice to the Department about the substantive
14 and procedural aspects of the review. We will
15 also be involved in the public hearing before
16 hearing officer, the Honorable Battle Robinson.

17 I will discuss the public hearing in
18 a moment, but I'd like to first put this public
19 information session in perspective relative to
20 the other aspects of review of the proposed
21 affiliation.

22 As Deputy Commissioner Reed has
23 stated, the purpose of today's session is not, I
24 repeat not, to reach a final decision on the

1 proposed affiliation.

2 The Department is in the midst of
3 its review and analysis of the proposed
4 affiliation, will continue its review and
5 analysis until it is satisfied that it can reach
6 a decision regarding the proposed affiliation,
7 including whether any additional conditions or
8 requirements will be required of the applicants.

9 There are certain criteria set forth
10 in the Delaware Insurance Code that are the basis
11 for the Department's review of the proposed
12 affiliation. They are:

13 1. Whether BCBSD will be able to
14 satisfy the requirements for the issuance of a
15 license to write the lines of insurance for which
16 it is presently licensed.

17 2. Whether the effect of the
18 proposed affiliation would be substantially to
19 lessen competition in insurance in Delaware and
20 tend to create a monopoly therein.

21 3. Whether Highmark's financial
22 condition is such as might jeopardize the
23 financial stability of the insurer, or prejudice
24 the interests of its policyholders.

1 4. Whether the plans and proposals
2 which Highmark has for BCBSD to make any material
3 changes in its business or corporate structure or
4 management are unfair and unreasonable to
5 policyholders of BCBSD, and not in the interest
6 of the public.

7 5. The competence, experience, and
8 integrity of those persons who would control the
9 operation of the affiliated entity are such that
10 it would not be in the interest of the
11 policyholders of the insurer and of the public to
12 permit the proposed affiliation.

13 Or 6. Whether the proposed
14 affiliation is likely to be hazardous or
15 prejudicial to the insurance-buying public.

16 After the Department has finished
17 its review and analysis, there will be a public
18 hearing held before the Honorable Battle
19 Robinson, who is the Department's hearing officer
20 for this proposed affiliation.

21 The public hearing will be held at a
22 time to be determined. The parties presenting
23 testimony and evidence at the public hearing
24 before Hearing Officer Robinson will include the

1 Department of Insurance and the applicants, BCBSD
2 and Highmark, as well as the Department of
3 Justice, which is in attendance here this
4 evening.

5 At the public hearing, which will be
6 held, as noted, at a time to be determined, Judge
7 Robinson will listen to testimony and review the
8 documentary evidence, and will then subsequently
9 issue a decision on the proposed affiliation.

10 The Commissioner will review Judge
11 Robinson's decision, and then give the ultimate
12 approval or disapproval of the proposed
13 affiliation.

14 That's a description of Morris
15 Nichols' role in this transaction, and where the
16 Department is in the process of its review. So
17 with that, I'll turn it over to Martin.

18 MR. ALDERSON: Thank you very much
19 indeed, Mike. Good evening, ladies and
20 gentlemen. My name is Martin Alderson Smith.
21 I'm employed by The Blackstone Group, which is a
22 leading investment banking firm primarily engaged
23 in financial advisory services and principal
24 investments. I work in Blackstone's corporate

1 advisory services group, and my title is senior
2 managing director.

3 Blackstone has been retained by the
4 Department of Insurance here in Delaware to
5 conduct an independent review of specific
6 financial aspects of the proposed affiliation
7 between Blue Cross Blue Shield of Delaware and
8 Highmark.

9 Blackstone's work will be based on
10 all the information provided to the Department,
11 and will include reviewing financial and other
12 information submitted by the applicants, talking
13 with various market participants, including
14 providers, competitors, clients, and brokers,
15 assessing the potential impact on competition in
16 the State of Delaware, and reviewing any public
17 comments received by the Department. This
18 information includes all information provided by
19 both BCBSD and Highmark, as well as any public
20 comments submitted to the Department.

21 Blackstone will ultimately provide a
22 report for use by the Department in connection
23 with the Department's review and analysis.

24 Blackstone has significant

1 experience advising State insurance regulators on
2 various life insurance and health insurance
3 transactions. In some of those instances,
4 Blackstone has recommended approving the proposed
5 transaction. In other instances, Blackstone has
6 recommended denying the proposed transaction.

7 Thank you all for your attendance
8 this evening. We look forward to your comments,
9 and now I'll turn it back over to the Deputy
10 Commissioner.

11 DEPUTY COMMISSIONER REED: Thank
12 you, Mike and Martin. Today's session, as you
13 can see, is being transcribed by a court
14 reporter. The Department will make a copy of the
15 transcript available on its internet website.
16 You may download a copy of the transcript from
17 the Department's website.

18 If you do not have internet access,
19 you may view the transcript at the Department's
20 offices, again in Dover and Wilmington. Please
21 call to schedule an appointment before visiting
22 the Department's offices. You may also request a
23 copy of the transcript by fax or by e-mail.

24 As I explained earlier, the purpose

1 of this evening's session is to provide a public
2 forum for anyone to give information and comments
3 and ask questions about the proposed affiliation
4 between Blue Cross Blue Shield of Delaware and
5 Highmark.

6 Please address your comments to this
7 topic only, and we ask that you please be as
8 concise as possible. If you are speaking, we ask
9 that you include your name on the list of
10 speakers that is available at the registration
11 table within the first 30 minutes of this
12 session. I hope you have all signed in already,
13 and also indicated that you wish to speak.

14 If you have not yet signed in or
15 indicated that you wish to speak, I ask that you
16 please go to the registration table and sign in
17 at this time.

18 We ask that you also indicate if you
19 are speaking on your own behalf, if you are
20 speaking in any type of representative capacity,
21 and what your relationship, if any, to Blue Cross
22 Blue Shield Delaware or Highmark is. For
23 example, if you are a policyholder or subscriber
24 of Blue Cross Blue Shield of Delaware or

1 Highmark.

2 Because of the informal nature of
3 today's session, there will be no sworn
4 testimony. Cross-examination or other
5 questioning of speakers or other representatives
6 of the parties will not be permitted.

7 However, you may pose questions to
8 the applicants during your oral comments, or in
9 writing on the 5 by 7 cards available at the
10 registration table. Please pass the cards to the
11 end of the row, and they will be collected during
12 breaks and at the conclusion of this evening's
13 session.

14 Following today's session, the
15 Department will require Blue Cross Blue Shield of
16 Delaware and Highmark to respond in writing to
17 all questions raised by the Department and the
18 public during the session, and will make those
19 responses available on its internet website.

20 Please limit your remarks to five
21 minutes. Once all speakers have given their
22 comments, the Department will allow speakers to
23 present additional comments. If your remarks
24 cannot be fully presented in your initial

1 five-minute time slot, if we have time, you may
2 be able to present further remarks at the end of
3 this evening's session.

4 Before the public comment session
5 begins, both Blue Cross Blue Shield of Delaware
6 and Highmark have sent representatives to
7 contribute to this evening's public information
8 session.

9 Tim Constantine, Blue Cross Blue
10 Shield of Delaware's chief executive officer, is
11 here representing Blue Cross Blue Shield of
12 Delaware. And Dr. Kenneth Melani, Highmark's
13 president and chief executive officer, is here
14 representing Highmark.

15 Both Mr. Constantine and Mr. Melani,
16 Dr. Melani, will be making statements this
17 evening. Their statements are intended to give
18 an overall view of the transaction, as well as to
19 provide rationale from their respective
20 organizations and stakeholders, and to preface
21 the public comment session.

22 Mr. Constantine and Dr. Melani will
23 speak for approximately 15 minutes each. Their
24 statements will be recorded by the court

1 reporter, and will be posted on the Department's
2 website.

3 Neither Mr. Constantine or
4 Dr. Melani will make statements beyond these
5 initial remarks, and they will not give verbal
6 responses to individuals during the public
7 comment session.

8 Responses to individual statements
9 and questions from the public will be given in
10 written form and posted on the Department's
11 website.

12 Mr. Constantine will be speaking
13 first, followed by Dr. Melani. Thank you.

14 MR. CONSTANTINE: Good evening, and
15 welcome, everyone. Thank you, Deputy
16 Commissioner Reed. My name is Tim Constantine,
17 and I am the president and chief executive
18 officer of Blue Cross Blue Shield of Delaware.
19 With me tonight is Dr. Ken Melani, the president
20 and chief executive officer of Highmark.

21 We welcome the opportunity to
22 discuss why this partnership between Blue Cross
23 Blue Shield of Delaware and Highmark is good for
24 Delaware, how it will benefit our subscribers,

1 the communities in which we operate, and the
2 people of Delaware. For the sake of simplicity,
3 Ken and I will use the name Blue Cross during our
4 presentation to mean Blue Cross Blue Shield of
5 Delaware.

6 We recognize that these public
7 information sessions are one stage of a
8 comprehensive review process by the Delaware
9 Insurance Department, and we believe that our
10 presentation today, combined with the large
11 volume of information we have already submitted
12 to the Department, will clearly demonstrate that
13 this transaction is in Delaware's best interest.

14 Tonight we will cover a number of
15 topics, focusing on how the proposed transaction
16 will benefit the people of Delaware. We will
17 discuss our companies, their missions, and the
18 forces in the healthcare industry that are
19 driving change.

20 We will explain why Blue Cross, at
21 this moment, needs a strong partner to maintain
22 its strong Delaware presence, and I will also
23 talk about why Highmark is the right partner for
24 us.

1 As this review process moves
2 forward, we look forward to hearing from many
3 Delawareans, including those from local
4 businesses, civic and community organizations,
5 consumers, and healthcare providers.

6 To set the stage for my comments, I
7 would like to turn the discussion over to
8 Dr. Melani.

9 DR. MELANI: Thanks, Tim. Good
10 evening, everyone. I'm Ken Melani, Highmark's
11 president and CEO. One reason we're here tonight
12 is to discuss the sea of changes taking place in
13 our healthcare system, nationally and locally,
14 and how these changes create a need for this
15 alliance.

16 Before doing that, I'd like to tell
17 you about Highmark. We have a very proud
18 tradition. For nearly 75 years, we've operated
19 as a not-for-profit corporation, with a
20 long-standing commitment to the communities in
21 Pennsylvania, and more recently, West Virginia.

22 As part of our long-standing
23 mission, we have provide insurance programs to
24 every segment of the population. We've also

1 subsidized many of these insurance programs to
2 hold down the cost of health insurance for those
3 most in need, including seniors, children, and
4 those with limited economic means who don't
5 qualify for government programs and don't have
6 health insurance through an employer.

7 In addition to developing and
8 supporting these insurance programs, we've
9 provided a tremendous amount of support to the
10 community through grants and other forms of
11 giving. These monies are primarily used by
12 community health and human services organizations
13 to help address pressing human needs, including
14 free health, dental, and vision screenings for
15 those in need, childhood obesity and immunization
16 clinics.

17 In 2010, we contributed \$175 million
18 for programs in support of our corporate mission.
19 Here are some examples that we take great pride
20 in: Highmark has created and continues to carry
21 out many programs to make a difference in the
22 lives of children and their families. In 1985,
23 Highmark's predecessor companies, Blue Cross of
24 Western Pennsylvania and Pennsylvania Blue

1 Shield, launched the Caring Program for Children,
2 to provide primary healthcare benefits to
3 children of unemployed and working poor families.
4 The government-sponsored Children's Health
5 Insurance Program, widely known as CHIP, was
6 modeled after the Caring Program that was
7 developed in Pennsylvania.

8 In addition, during the past five
9 years, we contributed \$100 million to hundreds of
10 schools and community organizations to address
11 five critical needs in children's healthcare
12 issues: Nutrition, physical activity, grieving,
13 self-esteem, and bullying. Called the Highmark
14 Healthy High Five program, this program's helped
15 to promote life-long healthy habits in children
16 ages 6 to 18.

17 To fully quantify Highmark's
18 community commitment, we have contributed nearly
19 \$900 million for community-related activities
20 from 2005 through the end of last year.

21 Improving the health and wellness of
22 people in our community is one important part of
23 our heritage. We also have a tradition of
24 supporting the economy of local communities and

1 states that we serve, and where our employees
2 live and work.

3 Our presence generates billions of
4 dollars for the economies of Pennsylvania and
5 West Virginia. For example, we buy most of our
6 goods and services from local companies. By
7 doing so, we support and help create additional
8 jobs in the community, and help boost local and
9 State tax revenue.

10 Our role as an economic engine has
11 helped spur job growth. Since 1996, as our
12 business has grown, we've added nearly 10,000 new
13 jobs. We now have nearly 20,000 employees.

14 And although we are a not-for-profit
15 company, we also pay taxes. From 2005 through
16 the end of last year, Highmark has paid more than
17 \$1 billion in Federal, State, and local taxes,
18 including property taxes.

19 So, as you can see, we have a long
20 history centered on make our communities better,
21 and we are committed to maintaining that focus.

22 We also want to work closely with
23 other Blue Cross Blue Shield companies, like Blue
24 Cross here in Delaware, that share certain core

1 values: Remaining a not-for-profit corporation
2 with a commitment to meeting the healthcare needs
3 and supporting the economy of local communities.

4 This is one reason why we believe
5 this affiliation is a good fit for both Blue
6 Cross and Highmark, as well as the State of
7 Delaware.

8 But this partnership is not about
9 yesterday or today. It's really about the
10 future. It's about how Highmark and Blue Cross
11 can operate effectively in the future, while
12 benefitting Blue Cross employees, members,
13 healthcare providers, and the people of Delaware.

14 To sustain our proud past well into
15 the future, Highmark and Blue Cross must confront
16 and adapt to a rapidly changing and very
17 challenging environment.

18 The healthcare system today appears
19 to be at a crossroads. We all know the most
20 important issue in healthcare is the growth of
21 medical costs, which is the primary driver of
22 higher health insurance premiums.

23 Our customers expect health
24 insurance companies to act decisively on their

1 behalf to hold down medical cost increases. But
2 because of the ever-rising cost of medical care,
3 fewer businesses today, especially smaller
4 businesses, can afford to provide employee
5 healthcare benefits.

6 Access to health insurance is
7 another major issue. The rising cost of
8 healthcare, combined with the ripple effects of
9 the recession, has increased the number of people
10 without health insurance.

11 And while the Federal healthcare
12 reform law over time will help expand coverage to
13 more Americans, reform only marginally addressed
14 the cost dilemma.

15 We are also seeing rising concerns
16 about the quality of healthcare, including
17 differences in the way healthcare is delivered
18 from community to community and patient safety in
19 healthcare institutions.

20 Despite the highest per capita
21 health spending in the world, there is a
22 widespread belief that Americans do not receive
23 the value we should for our healthcare dollars.

24 At the same time, consumers are

1 taking a more active role in all aspects of
2 healthcare. Because they're more responsible for
3 their costs, consumers are seeking more
4 information about the cost and the quality of
5 care across the providers, and are taking a more
6 active role in their personal health.

7 These market dynamics are driving
8 changes in the way healthcare is delivered and
9 paid for, and health insurers must move quickly
10 to stay a step ahead of the shifting marketplace.

11 Highmark views change as a
12 springboard for innovation, developing new ways
13 to personalize products and services. In the
14 future, one size fits all health insurance
15 products won't meet the needs of demanding
16 consumers.

17 The past two years, Highmark has
18 opened a number of health insurance retail
19 stores, where people can walk in, talk to a
20 representative, and get answers to questions
21 about health insurance options. This retail
22 marketing approach will prepare Highmark for the
23 introduction, in 2014, of purchasing exchanges,
24 which will allow individuals in small businesses

1 to compare and buy health insurance products
2 based on price and other important factors.

3 I mention the retail stores because
4 they are one of the many new capabilities that
5 health insurance companies must have in place to
6 meet consumer demand and compete in the
7 healthcare marketplace of tomorrow.

8 Health insurers must also invest in
9 employer health and wellness programs, programs
10 to help people with chronic medical conditions,
11 and new information technologies, to simplify
12 business transactions with their customers,
13 physicians, and hospitals, just to name a few.

14 In addition, Highmark offers a
15 variety of online tools to help our members be
16 more actively engaged in their healthcare, manage
17 it smartly, and achieve life-long good health.

18 These services allow members to
19 compare health plan options and choose the one
20 that meets their own needs and to compare the
21 cost of medical services, so they can make
22 informed healthcare decisions.

23 And although there are many
24 uncertainties about healthcare delivery and

1 financing, one thing is certain: To compete
2 vigorously in the changing healthcare landscape,
3 organizations must have the financial resources
4 to fund expensive infrastructure improvements,
5 develop an array of new products and services,
6 and provide extensive web-based member services.

7 Small and large health insurers
8 alike must not only invest their capital wisely,
9 but also must avoid duplicative spending. Every
10 dollar spent on duplicate investments adds to the
11 cost of health insurance, and brings little
12 additional value to subscribers.

13 Our business alliance will give Blue
14 Cross access to a wide range of Highmark
15 resources and services to help upgrade technology
16 and information systems, add new products, better
17 serve the people of Delaware, and avoid some of
18 the duplicate spending on infrastructure
19 improvements that would only add more cost to
20 Delaware's healthcare system.

21 In addition to the need for
22 significant capital to meet growing customer
23 demands, health insurers are being challenged to
24 operate more efficiently. Scale has become

1 increasingly important to achieve greater
2 efficiency and to lower administrative costs.

3 Healthcare suppliers and service
4 companies in radiology, laboratory services, and
5 durable medical equipment are operating more as
6 multi market companies to help insure a steady
7 flow of capital and to gain greater operating
8 efficiencies. As a result, the scale of
9 competition in healthcare is moving from a local
10 to a regional and a national basis.

11 The health insurance industry has
12 also evolved. Over the past 25 years, many
13 not-for-profit companies -- I'm sorry. Many
14 for-profit insurance companies have joined
15 together to create larger companies. This gives
16 them the scale to operate more efficiently, by
17 spreading fixed operating costs over a larger
18 membership base and accumulating capital to make
19 the necessary investments in health information
20 technology and new products and services.

21 The national Blue Cross and Blue
22 Shield system has also undergone similar change.
23 In 1980, there were 115 Blue Cross Blue Shield
24 companies, each doing their own thing. Each

1 invested in new technologies. Each invested in
2 new products and services. It was a very
3 inefficient model.

4 Today there are 39 independent Blue
5 Cross and Blue Shield companies, and our system
6 operates more efficiently. In fact, more than
7 100 million Americans now carry a Blue Cross and
8 Blue Shield card, compared to approximately 60
9 million subscribers in the 1980s.

10 The operating efficiencies achieved
11 over these last 30 years have contributed to this
12 growth. But the growing scale and capital
13 accumulation of the much larger national
14 for-profit companies is again making it more
15 difficult for not-for-profit Blue Cross and Blue
16 Shield plans to remain competitive. This is
17 especially true for smaller unaffiliated
18 companies, such as Blue Cross here in Delaware.

19 Highmark has a reliable track record
20 of establishing strong working relationships with
21 other Blue Cross and Blue Shield companies to
22 help them maintain a local presence, streamline
23 operations, and provide better service to
24 customers.

1 In some cases, we process claims,
2 provide an information technology platform, or
3 provide other administrative services for other
4 Blue Cross and Blue Shield companies, such as in
5 Louisiana, Tennessee, Florida, and northeastern
6 Pennsylvania.

7 The proposed alliance with Delaware
8 Blue Cross most closely resembles our current
9 relationship with Highmark West Virginia, which
10 dates back to 1999. Highmark has built a legacy
11 of investing to support the economy in West
12 Virginia and the local communities we serve
13 there.

14 For example, over the past five
15 years, Highmark has generated more than \$106
16 million in economic impact for the Parkersburg,
17 West Virginia, region, by creating 300 jobs,
18 paying annual employee wages of more than \$9
19 million, and paying more than \$1 million in
20 business and occupational taxes.

21 In addition, the development of a
22 \$26 million Highmark West Virginia headquarters
23 building in downtown Parkersburg has spurred
24 development in the area.

1 Our experience in West Virginia and
2 elsewhere demonstrates that we have the
3 commitment, the resources, and the experience to
4 partner successfully with other not-for-profit
5 companies to achieve greater operating
6 efficiencies, such as lowering the unit price to
7 process a single healthcare claim, and expand new
8 business opportunities for local Blue Cross
9 companies.

10 It also shows we're serious and
11 steadfast about our philosophy and values of
12 supporting local communities.

13 In summary, we believe the
14 affiliation will be a win/win for Highmark and
15 Blue Cross, and most importantly, for the people
16 of Delaware. Through this alliance, Highmark
17 will support Blue Cross's mission of helping make
18 sure that healthcare services are accessible for
19 Delaware citizens, and strengthening the Delaware
20 economy.

21 In short, these two companies are a
22 good match. By harnessing the resources and
23 strengths of both companies, we can jointly build
24 upon Blue Cross's strong customer and provider

1 relationships and better serve Delaware
2 customers, healthcare providers, and the
3 community at large.

4 Now I'd like to turn it back over to
5 Tim.

6 MR. CONSTANTINE: Thanks, Ken. As
7 Dr. Melani noted, our industry is experiencing a
8 period of rapid change. I am convinced that
9 through this relationship with Highmark, we can
10 build upon our 75 years of success and ensure
11 that we continue as the State's premier health
12 benefits company.

13 What do we consider to be the
14 important attributes that make Blue Cross
15 different from our competitors? First and
16 foremost, we are and will continue to be a
17 not-for-profit company headquartered in Delaware.

18 We also want to preserve the health
19 and vitality of our communities. That means
20 continuing to provide grants to community
21 organizations to help increase access to
22 healthcare for Delaware's uninsured and
23 underserved, reduce health disparities in
24 minority communities, and support programs to

1 recruit and train new healthcare professionals.

2 Since 2007, Blue Cross has provided
3 nearly \$8 million in direct support to our
4 community, through grants, sponsorships, and
5 donations. And of course, we want to continue to
6 be an important economic engine for Delaware by
7 maintaining substantial employment levels in this
8 state.

9 These attributes represent the core
10 of Blue Cross, but the overriding question for us
11 is how can we maintain our focus in these areas
12 and remain a financially sound company, when the
13 healthcare environment poses a real threat to the
14 future of small, independent companies like ours.

15 Our board of directors and
16 management team studied this question extensively
17 for several years. We hired outside experts to
18 help us evaluate our business capabilities in
19 light of the changes taking place in healthcare.

20 We looked at every aspect of our
21 business, and asked the tough questions: Do we
22 have the resources to acquire leading edge
23 technologies? Will we have the resources to
24 acquire or develop new products and services that

1 the marketplace is asking for?

2 Will we have the large sums of
3 capital needed to meet new and expensive Federal
4 requirements? Can we grow membership on our own
5 to create the scale to lower our administrative
6 costs?

7 Similar to most companies over the
8 last few years, we have had to make some very
9 difficult decisions. For example, our workforce
10 today has 100 fewer employees than we had at the
11 end of 2007.

12 We also looked at the competition we
13 face in Delaware. Our competitors here are all
14 large, national companies that have grown through
15 acquisitions and consolidations. Even the
16 smallest of our major competitors is still more
17 than 12 times larger than Blue Cross.

18 Adding to these challenges are
19 substantial infrastructure investments to comply
20 with new government mandates. For example,
21 effective in October, 2013, all health plans will
22 be required to implement a new set of
23 standardized codes to ensure more efficient
24 processing of healthcare claims and transactions

1 throughout the U.S.

2 This conversion process alone will
3 require a significant amount of time and effort,
4 and will require a massive capital expenditure if
5 we remain independent. To give you an idea of
6 the magnitude, this change will increase the
7 number of procedure codes needed from 3000 to
8 87,000.

9 Compounding these challenges is the
10 healthcare reform law. Its impact on health
11 insurers is only beginning to be felt, and we
12 won't know the full scope of changes for health
13 insurers, and the associated capital costs, until
14 the Federal government issues more details about
15 the provision of the law.

16 At a minimum, we know all health
17 insurers will have to redesign products to comply
18 with the law, completely overhaul the way
19 products are distributed as the new purchasing
20 exchanges are introduced, develop new methods of
21 setting prices for products, and change the
22 methods of paying doctors and hospitals to
23 encourage more effective and lower-cost care.

24 We all know that there will be a

1 host of new reporting and other administrative
2 requirements that small health insurers will find
3 inordinately difficult to meet on their own. All
4 of these changes will require huge capital
5 investments.

6 After weighing all of these factors,
7 we concluded that it was in Blue Cross's best
8 long-term interest to form a partnership with a
9 larger company so we can continue our 75-year --
10 successful 75-year track record of serving our
11 customers.

12 On our own, it would be difficult to
13 achieve the operating efficiencies of our much
14 larger competitors. On our own, we would lack
15 capital and resources to comply with costly
16 government mandates and the new reform law's
17 requirements.

18 On our own, we could not continue to
19 survive as a company and develop new products and
20 services needed to meet shifting customer
21 demands. And perhaps most significantly,
22 remaining a stand-alone company will cost our
23 customers more money.

24 Customer premiums are estimated to

1 be 3 percent higher if we do not affiliate with
2 Highmark, because of the projected capital
3 spending necessary to remain competitive.

4 On the other hand, with Highmark as
5 a partner, we will save an estimated \$79 million
6 in capital costs over five years. Our customers
7 will benefit because of lower projected premium
8 increases than would have occurred if we remained
9 on our own.

10 Our past experience has also taught
11 us the advantages of a partnership, compared to
12 being on our own. During our past affiliation
13 with Care First Blue Cross Blue Shield that ended
14 in 2006, we increased our membership, grew
15 employment, controlled our administrative costs
16 better than we could as a stand-alone company,
17 improved our customer service, and strengthened
18 our financial position.

19 Since then, our ability to grow our
20 business, control administrative costs, and
21 compete against better-financed and much larger
22 insurers in Delaware has been impacted.

23 And though we are a financially
24 sound company today, as Ken noted earlier, this

1 alliance is about the future, and ensuring that
2 we continue as the state's premier health
3 benefits company.

4 For all these reasons, we decided
5 that now was the right time for a strategic
6 partnership. After careful deliberation, we
7 selected Highmark, a not-for-profit Blue Cross
8 and Blue Shield company, as our proposed
9 affiliation partner.

10 Why Highmark? Because an
11 affiliation with Highmark offers the best
12 opportunity for Blue Cross to remain a strong,
13 not-for-profit Delaware company with a community
14 focus across the state, and able to compete
15 effectively in the Delaware health insurance
16 market over the long term. Highmark will help us
17 expand access to health care services for
18 Delaware citizens and bolster the Delaware
19 economy.

20 There are other reasons we selected
21 Highmark. It has a good track record of
22 successful working relationships and affiliations
23 with other Blue Cross and Blue Shield companies.

24 As an example, we have researched

1 and visited Highmark's West Virginia affiliate.
2 As a result of the affiliation with Highmark, the
3 West Virginia plan operates more efficiently,
4 maximizes the use of information technology, is
5 financially more stable, offers more products and
6 services to meet the needs of West Virginians,
7 and has increased its employee workforce.

8 This experience, and the
9 testimonials shared, offer reassurance that
10 Highmark will bring similar benefits to Delaware.

11 Highmark also brings advanced
12 technology and support tools Resources d that
13 will vastly improve our ability to serve Delaware
14 subscribers, employers, brokers, and agents, and
15 physicians and hospitals.

16 For example, there is a real push in
17 healthcare today to make information readily
18 available to healthcare providers and subscribers
19 on a real-time basis. Highmark has developed
20 real-time transaction tools that let patients
21 know their actual out-of-pocket healthcare costs
22 tied to the benefits when they schedule or
23 receive healthcare services. This takes away the
24 guesswork from patients about the cost of the

1 medical treatment.

2 In addition, the real-time's claim
3 processing tool simplifies administration and
4 eliminates much of the paperwork for physicians
5 and other healthcare providers. More medical
6 claims are able to be processed without manual
7 intervention.

8 Delaware physicians and hospitals
9 will be able to determine a patient's financial
10 obligation when a service is rendered, and
11 providers submitting real-time claims will also
12 be reimbursed much faster than in the past.

13 With the help of Highmark's
14 technology, Delaware providers will also obtain
15 information real-time about the status of claims
16 and our medical policies, and conduct many
17 business transactions with us much faster.

18 These improvements will help control
19 administrative expenses for Blue Cross and
20 physician offices, while allowing physicians to
21 focus more of their time on patient care.

22 As Ken mentioned earlier, the major
23 issue in healthcare today is the rising cost of
24 medical services. Delaware employers are

1 choosing employee health benefits today based on
2 whether a health insurer can help control their
3 employee healthcare costs.

4 When I meet with Delaware employers
5 on healthcare issues, one of the first things
6 they want to know is how we can help control the
7 growth of their employee healthcare costs and
8 foster a healthier, more productive workforce.
9 Through this affiliation, we will be in a much
10 better position to offer more solutions for local
11 employers.

12 For example, Highmark offers
13 information reporting and analytical tools, plus
14 medical management programs and services to
15 support individual employers.

16 Armed with these tools, we will be
17 able to identify the underlying drivers of higher
18 employee medical costs on an employer-by-employer
19 basis, and then tailor solutions, such as health
20 promotion, wellness, or chronic disease
21 management programs, to help improve employee
22 health and reduce employee absenteeism.

23 In addition, we anticipate that
24 Highmark's broad mix of health insurance and

1 other employee benefit programs will create
2 additional growth opportunities for us in
3 Delaware.

4 For example, Highmark offers dental
5 insurance, vision programs, reinsurance products,
6 as well as broad health insurance programs geared
7 for seniors, individuals, and other segments of
8 the community.

9 By combining these complementary
10 products with our current health insurance
11 products, we can potentially serve a larger
12 portion of the Delaware population, particularly
13 those in the individual and senior segments.

14 I want to be very clear on this
15 point. The partnership is about much more than
16 using Highmark's technology platform and systems
17 capabilities to help us streamline operations and
18 better control administrative costs. This is
19 about having a trustworthy partner to help us
20 achieve a better future for Delaware and bring
21 additional value to all industry stakeholders in
22 this state.

23 We believe this affiliation will
24 help us achieve many goals. It will bring to

1 Delaware diversified and innovative products and
2 services, and a sophisticated centralized
3 resource team for some of the most critical
4 health insurance functions, such as developing
5 new products, identifying new business and sales
6 opportunities, conducting market research, and
7 managing medical and pharmacy costs for our
8 customers.

9 It will also bring Highmark's
10 experience and expertise with implementing new
11 provider payment methods, such as financial
12 incentives that link reimbursements to documented
13 improvements in clinical care and better patient
14 outcomes.

15 Healthcare reform is encouraging
16 changes in provider reimbursements to encourage
17 the delivery of more cost effective care, rather
18 than simply delivering more services.

19 With Highmark's support, we can work
20 collaboratively with the physician and hospital
21 community to help ensure that changes in the
22 delivery of medical care benefit patients and
23 providers.

24 And I believe we can realize

1 substantial benefits for Delaware while
2 preserving Blue Cross's local relationships with
3 our customers, doctors, and hospitals.

4 One of the main reasons we selected
5 Highmark as a partner is because they, too, value
6 the importance of collaborative local working
7 relationships. I want to assure you that our
8 local relationships will be maintained. Delaware
9 employers, physicians, and hospitals will
10 continue to interact with the Blue Cross
11 associates with whom they have worked for many
12 years.

13 Although we remain Delaware's market
14 leader in health insurance, and are financially
15 healthy now, the environmental forces that Ken
16 and I have discussed, plus the pressures facing
17 health insurers in the near future, dictate
18 decisive action.

19 As a small stand-alone company, we
20 lack the capital and resources to make the
21 necessary investments to meet marketplace needs
22 and respond to healthcare reform in the years to
23 come.

24 Before I close, I would like to

1 respond to three specific questions that the
2 Department of insurance has asked us to address
3 tonight regarding the proposed affiliation.

4 The first set of questions relates
5 to reserves. Specifically, what are BCBSD's
6 plans for maintaining its current surplus, how
7 does Blue Cross propose this money be secured and
8 used to provide benefits for Delaware consumers
9 and rate payers subsequent to any affiliation
10 with Highmark?

11 I am very confident we can address
12 these potential concerns. First, Blue Cross
13 intends to treat its reserves following the
14 affiliation in the same manner as it presently
15 handles these funds. Based on an assessment
16 performed by a nationally recognized actuarial
17 consulting firm, BCBSD's current reserves are in
18 the range recommended for a plan of our size
19 under normal operating conditions.

20 However, it is important to note
21 that just three years ago, Blue Cross reserves
22 fell by 30 percent, as a result of the economic
23 downturn, and we were below the minimum range
24 recommended by that same actuarial consulting

1 firm.

2 Under the structure and terms of the
3 proposed affiliation, Blue Cross will remain a
4 separate legal entity, distinct from Highmark.
5 As such, Blue Cross's reserves will, after the
6 affiliation, remain dedicated to ensuring that
7 the company has the assets on hand that we need
8 to pay claims.

9 To the extent that there are
10 concerns that Blue Cross reserves will be
11 transferred to Highmark, let me assure you that
12 this cannot happen. As noted, Blue Cross will
13 remain a distinct legal entity, a Delaware
14 corporation, following the affiliation.

15 Moreover, because this is an
16 affiliation, not a merger, Blue Cross is not
17 obligated to pay or transfer any assets
18 whatsoever to Highmark, other than ordinary
19 reimbursement at cost for services Highmark will
20 provide to Blue Cross following the affiliation.

21 While the concern over preservation
22 of Blue Cross reserves is understandable, it is
23 important to recognize that because the
24 affiliation will give Blue Cross access to

1 Highmark's systems, capabilities, and enhanced
2 products and services at a much lower cost than
3 Blue Cross could do on its own, the affiliation
4 will, in fact, give a strong measure of stability
5 to Blue Cross's reserves.

6 Finally, the Delaware Insurance Code
7 gives the Delaware Insurance Commissioner a great
8 deal of oversight and authority regarding the
9 transactions between affiliated companies, which
10 will help ensure that the reserves continue to be
11 used for the benefit of Delaware subscribers. We
12 welcome that oversight.

13 Another question that has been posed
14 is whether there are any special incentives or
15 payouts, either currently in place or under
16 consideration, to Blue Cross's senior executives
17 or board members as a result of the affiliation.

18 There are no arrangements currently
19 in place or contemplated that would result in an
20 incentive or bonus payment to Blue Cross senior
21 executives or board members as a consequence of
22 the proposed affiliation being approved and
23 implemented.

24 Seven Blue Cross executives do have

1 employment agreements with severance benefits,
2 predating the affiliation agreement with
3 Highmark, which address involuntary termination
4 of the executive's employment, whether or not an
5 affiliation has taken place. These types of
6 agreements are common in the industry.

7 And the final question was what is
8 the projected impact on employment levels in
9 Delaware following the affiliation, if it is
10 approved.

11 Blue Cross and Highmark are
12 currently engaging in a detailed affiliation
13 planning process. At this point, it is premature
14 to make firm representations regarding employment
15 levels. What we do know is this: Both companies
16 are committed to keeping substantial employment
17 levels in Delaware, and are hopeful that Delaware
18 employment levels will actually increase over the
19 long term.

20 This is what Blue Cross experienced
21 in its prior affiliation with Care First, and is
22 what Highmark -- Blue Cross Blue Shield West
23 Virginia has experienced in its affiliation with
24 Highmark.

1 Blue Cross's market conditions and
2 enrollment levels in the future will remain key
3 factors in determining staffing levels here in
4 Delaware.

5 At this time, I'm also pleased to
6 note that in the spirit of transparency and open
7 communication with our customers, the community,
8 and the media, we have created a link on our
9 website, BCBSDE.com, that houses additional
10 information about the proposed affiliation,
11 including media statements, Q & A's, and
12 tonight's remarks. I encourage you to visit the
13 site if you have any additional questions.

14 In conclusion, I want to emphasize
15 that without Insurance Department approval of
16 this partnership at this time, we run a long-term
17 risk of steadily losing our subscribers to large
18 for-profit health insurance companies based
19 outside of Delaware. This would threaten our
20 ability to maintain substantial employment levels
21 in the state, and support community health and
22 human services programs at the levels we have
23 done for years.

24 Ken often says we can't have a

1 community mission without financial stability.
2 With that stability, Blue Cross can continue to
3 focus on our mission and community support.

4 But these values cannot be preserved
5 if our company is not competitive, relevant, and
6 financially viable. And so, I believe this
7 partnership with Highmark must be approved to
8 make us an even better company, that has the
9 human resource and financial means to meet the
10 healthcare needs of Delawareans and our local
11 communities in the years to come.

12 Thank you for the opportunity to
13 make our remarks this evening.

14 DEPUTY COMMISSIONER REED: Thank
15 you, Tim and Dr. Melani, for your comments
16 tonight. Now we will proceed with public
17 comments on the proposed affiliation by those who
18 signed up to speak at this session. We ask that
19 you limit your comments to five minutes.

20 And we will start with Mark
21 Sharnoff. There's a table and a mike up front
22 here, if you'd like to come up here and speak.
23 And I also beg your forgiveness if I
24 mispronounced your last name.

1 MR. SHARNOFF: I'm Mark Sharnoff,
2 S-h-a-r-n-o-f-f. I live in Newark. I've been a
3 Blue Cross Blue Shield subscriber for perhaps 40
4 years. Perhaps even longer than that.

5 I'm a retired person and represent
6 only myself. And I have to say that there has
7 been considerable information presented at this
8 meeting that was not available to persons
9 beforehand.

10 And I came to this meeting under the
11 presupposition that Blue Cross's major need was
12 to enhance its informational technological
13 capacities, specifically by the purchase of
14 additional computing -- computing equipment.

15 And the question which I had in
16 connection with that concern was that the
17 projected cost of that equipment and software
18 associated with it would be about \$80 million.

19 Expressed on a per subscriber basis,
20 that would amount, perhaps, to \$250 per
21 subscriber, and if that cost were to be amortized
22 over a ten-year period, it would amount to about
23 \$25 per subscriber.

24 The cost of that order of magnitude

1 is small in comparison to a typical premium per
2 subscriber, and I wondered in particular why the
3 Delaware Blue Cross Blue Shield is not -- or has
4 not pursued that alternative. Or whether it has,
5 and for reasons not presently exposed, decided
6 that that was not a prudent thing to do.

7 DEPUTY COMMISSIONER REED: Mr. Sharn
8 off, if I could sort of summarize what you're
9 asking. That you've been a subscriber of Blue
10 Cross Blue Shield for 40 years, plus or minus.
11 And that you've received considerable information
12 tonight, but your main question is their
13 computing equipment, the cost of their computing
14 equipment, and you feel that the cost is small to
15 a typical premium for a subscriber in terms of
16 purchasing this, and why they haven't pursued
17 that. And if they have, what was that
18 alternative, and what did they come out with?

19 MR. SHARNOFF: And in addition, of
20 course, there is the question of what Delaware
21 Blue Cross Blue Shield might have to be giving up
22 by having three members of its board of trustees
23 come from outside its own organization. Would
24 that not in some way reduce its own flexibility,

1 despite the arguments presented here tonight that
2 that would not happen.

3 DEPUTY COMMISSIONER REED: Okay.
4 Thank you. And we also have your additional
5 comments in writing that will be made part of the
6 record. Thank you very much. We appreciate your
7 comments.

8 Next would be Stuart Snyder.

9 MR. SNYDER: Good evening. My name
10 is Stuart Snyder, S-y-d-e-r.

11 DEPUTY COMMISSIONER REED: Welcome.

12 MR. SNYDER: Oh. Well, thank you.
13 My first question was partially answered this
14 evening. What adjustments to overall
15 compensation, including but not limited to
16 salaries, benefits, stock ownership, stock
17 options, derivatives, et cetera, would executives
18 and board members receive if the merger or
19 affiliation, or portions of the affiliation, go
20 through. That's not just directed to Blue Cross.
21 It's also directed to Highmark company.

22 The second one is, with regard to
23 the information systems needs of Blue Cross Blue
24 Shield, as the previous commentator said, was the

1 information we had made public was an \$80 million
2 system.

3 Had Blue Cross exposed their needs
4 to an external source for a business case study,
5 such as Cloud Computing, been looked at, or even
6 a limited affiliation with Highmark, to share
7 technology, and even on a lease type basis, just
8 sharing computing needs, without an actual legal
9 affiliation, merger, blending of boards, or
10 whatever it's called now.

11 And thirdly, after doing some
12 research and reading a couple of articles, one of
13 which was in Business Week regarding a merger, I
14 just wanted to outline what happened, and see if
15 that scenario is possible in this affiliation.

16 And what happened was, in Illinois,
17 I believe it was in '02 or '03, according to a
18 Business Week article, Well Point took over Right
19 Choice, merged or affiliated, whatever.

20 Right Choice stopped doing business
21 of the product for individual care. Well Point
22 then required a medical review prior to switching
23 somebody -- one of those customers in Illinois to
24 a new plan.

1 The case, the two cases they studied
2 indicated that the past subscribers were kind of
3 left out in the cold, and offered a much lesser
4 program by the larger company, at a much higher
5 premium.

6 And I guess what I wanted to know is
7 in the scenario that you're outlining today,
8 could that happen? In other words, could people
9 be dropped from one program, be forced into
10 another, that could result in a medical review,
11 which then brings up medical history.

12 And thirdly, after listening to your
13 presentations, organized presentation, are there
14 any regulations in place -- and I guess this is
15 to the Insurance Commissioner or Deputy
16 Commissioner -- any insurance regulations in
17 place to hold the company to the promises made
18 tonight?

19 DEPUTY COMMISSIONER REED: Thank you
20 for your comments. And again, if I could
21 summarize those, that you're concerned over the
22 salaries, benefits, and stock options that may
23 become available for executives, both Blue Cross
24 Blue Shield of Delaware and Highmark.

1 Second, whether or not they've
2 exposed their needs to an external source, such
3 as Cloud Consulting, or have looked into a
4 sharing agreement with Highmark in terms of the
5 computer systems.

6 And three, whether or not the
7 scenario which occurred between Well Point and
8 Right Choice could actually happen in this
9 scenario, where it would impact subscribers
10 significantly; they maybe would get less
11 coverage, or it could impact on those having
12 preexisting conditions or other healthcare needs,
13 and that they would not have the same type of
14 coverage that they once had under Blue Cross Blue
15 Shield of Delaware?

16 MR. SNYDER: That's pretty much it.

17 DEPUTY COMMISSIONER REED: I mean
18 you have written comments here, as well, but --

19 MR. SNYDER: Yeah. The scenario in
20 Illinois where they were dropped from a plan and
21 offered a lesser plan, of course at a higher
22 expense, and also subject to medical review to
23 enter into other plans. Medical review
24 triggering higher premiums.

1 And I forgot to mention that I'm a
2 Delaware resident and a Blue Cross subscriber.

3 DEPUTY COMMISSIONER REED: Lastly,
4 you did ask about whether or not the Department
5 has regulations in place, and we will provide
6 that answer for you.

7 MR. SNYDER: Okay. Good. Thank
8 you.

9 DEPUTY COMMISSIONER REED: Next we
10 have Nick Moriello.

11 MR. MORIELLO: My name is Nick
12 Moriello, M-o-r-i-e-l-l-o, and I'm an owner of
13 Health Insurance Associates in Newark, Delaware.
14 We're a health insurance brokerage. And we do
15 serve as brokers, and a general agency and
16 wholesaler for Blue Cross Blue Shield of
17 Delaware.

18 I'm here tonight on my own accord,
19 to give my comments related to the potential
20 acquisition/affiliation of Blue Cross Blue Shield
21 Delaware and Highmark.

22 I have comments more so than a
23 question. Many of our clients -- my agency's
24 clients, are Blue Cross Blue Shield of Delaware

1 existing members, and I myself am also an
2 existing member of Blue Cross Blue Shield.

3 Our clients have been asking us,
4 ever since the affiliation was announced, is this
5 a good thing? What does this mean to me?

6 And although many of the questions
7 were unknown, and a lot of the information that
8 was shared tonight is good information, all of
9 the homework, so to speak, that I've done as a
10 broker on behalf of my clients has led me to
11 believe that this affiliation will be a positive
12 affiliation for Blue Cross Blue Shield Delaware
13 members.

14 I feel that they're going to gain
15 from the economies of scale that Mr. Constantine
16 and Dr. Melani have advised here tonight; that
17 larger-scale availability of more resources, in
18 particular more technological resources, are
19 going to lead to faster claim processing, more
20 customer service availability for our clients,
21 and possibly more product offerings, and more
22 market availabilities in particular as it relates
23 to Medicare.

24 So, I felt that on those specific

1 topics, that this is going to be positive points
2 for my particular clientele, who are Blue Cross
3 Blue Shield members, and from my own perspective
4 as a member.

5 So that's what I wanted to come here
6 tonight to share. Thank you.

7 DEPUTY COMMISSIONER REED: Thank
8 you, Nick. And again, just to sort of summarize,
9 there were no questions, but it appears that in
10 looking at this, you feel that it is a positive
11 affiliation, would be positive, at least for your
12 clients? That's what you're kind of indicating
13 to your clients?

14 MR. MORIELLO: Exactly. I have been
15 indicating to my clients, and I feel that for
16 Blue Cross members in general, that the
17 affiliation is going to have many positives for
18 their service.

19 DEPUTY COMMISSIONER REED: Great.
20 Thank you.

21 MR. MORIELLO: Thank you.

22 DEPUTY COMMISSIONER REED: I
23 appreciate your comments. Next we have Dr. Traci
24 Bolander.

1 DR. BOLANDER: I never usually need
2 a microphone, but I'll go ahead and use it. It's
3 Traci, T-r-a-c-i, Bolander, B-o-l-a-n-d-e-r.

4 I'm here tonight kind of wearing
5 many hats. Most importantly, I think, speaking
6 for a population that often gets forgotten when
7 we speak about the medical world, and that's the
8 mental health population. So, one of my hats is
9 certainly here as a mental health advocate, for
10 both patients and providers.

11 I am also an owner of a fairly large
12 outpatient mental health practice in Newark. And
13 then also, as the owner, I am also an owner that
14 has to offer employee benefits. So, I wear many
15 hats here today.

16 I guess my questions, a lot of them
17 were answered tonight, so I felt really good
18 being able to be here and hear the information
19 that was offered.

20 We have a wonderful working
21 relationship with Blue Cross Blue Shield of
22 Delaware. They are by far one of the easiest
23 companies to work with, especially in their
24 behavioral health department. And one of my

1 concerns would be losing any of the great folks
2 that you have there. We've worked with them for
3 years, and they are very, very helpful.

4 And I guess my greatest need right
5 now is some assurance that the mental health
6 community is not getting lost in this deal, which
7 is what often happens to us.

8 Many of the larger insurers have
9 gone to carve-out plans for mental health
10 benefits, where Blue Cross Blue Shield is not
11 actually the provider of mental health benefits,
12 but subcontracts out to another company.

13 Our experience with this has not
14 been positive, in most cases, at all. So, we
15 haven't been able to get firm answers about
16 whether that is in the plan for what's going to
17 happen here in Delaware.

18 And the reason we're so concerned
19 about that is to ensure access to quality care.
20 There's a wonderful panel of Blue Cross providers
21 at this point in the mental health field. We
22 want to make sure that that panel's not going to
23 be affected; that the rules aren't going to
24 change for access to care; and that we still have

1 local access to folks to consult with as it
2 relates to mental healthcare.

3 We also want to ensure the
4 transition is smooth. Most of our patients don't
5 transition well. So, we've been prepping them
6 for this. They read about it in the paper, they
7 get very, very anxious. So, we've been working
8 very hard to provide them with whatever
9 information we can, to help ease this transition.

10 The second piece of it relates to
11 the transition. As -- I'm not sure if there's
12 other providers in the room, but we've already
13 begun making this transition.

14 I'm not sure if the public's aware
15 that we have already switched over to some of the
16 technological services that are provided by
17 Highmark. Billing is now being serviced through
18 them, as well as we will be switching over to the
19 Navinet, the real-time authorizations and all
20 that good stuff that I don't understand, but my
21 office staff tells me it works well. And those
22 have been in place, I believe billing started in
23 May, and Navinet is coming.

24 We've had positive experiences, just

1 to put that on record. We have had positive
2 experiences. But I'm a little concerned about
3 what's going to happen if this affiliation does
4 not go through.

5 We have already invested
6 considerable staff time and resources to change
7 over our entire system to work with what we're
8 being required to do now. And if this
9 affiliation doesn't go through, we need to know,
10 is that part just going to -- somebody had
11 mentioned, is that part just going to be sort of
12 subcontracted out to Highmark? Or are we going
13 to have to invest our own time and resources yet
14 again, for an additional transition.

15 And I think that was it.

16 DEPUTY COMMISSIONER REED: Okay.
17 Thank you for your comments. And I will try to
18 summarize those. They were very valid concerns,
19 particularly in the mental health arena. We
20 certainly appreciate you bringing those to our
21 attention tonight.

22 And you are a mental health
23 advocate, and that you have a great working
24 relationship currently with Blue Cross Blue

1 Shield.

2 Your concern is losing any of the
3 folks in the mental health arena that you've
4 worked with Blue Cross Blue Shield, in regards to
5 this affiliation, and that you're hoping that
6 there will be some assurances that the mental
7 health area is not getting squeezed out through
8 this affiliation.

9 And you want to ensure access to
10 quality care, and that the panel is not affected
11 by any change in rules, and that you want to know
12 what will happen if the affiliation does not go
13 through.

14 I hope I've kind of summarized. I
15 know you had others, and we do have a court
16 reporter that is taking this down, and it will be
17 part of the written comments.

18 DR. BOLANDER: The key was the
19 carve-out. That is a huge, huge question for our
20 community at this point, is ensuring that
21 what's -- are they anticipating a carve-out of
22 mental health benefits to a subcontractor. Other
23 companies use companies like Magellan.

24 DEPUTY COMMISSIONER REED: Okay.

1 Thank you.

2 DR. BOLANDER: That's a very
3 critical issue. Thank you.

4 DEPUTY COMMISSIONER REED: Great.
5 And we will have those answered. Thank you very
6 much for your comments.

7 (Mr. Houghton conferred with Deputy
8 Commissioner Reed)

9 DEPUTY COMMISSIONER REED: Okay. I
10 want the record to reflect that we do not have
11 any more individuals signed up to publicly speak
12 tonight, but we will keep the record open until
13 7:20, and then we will reconvene to see if anyone
14 else has come. And at that point, if no one has,
15 we will adjourn. So, we'll be back at 7:20.

16 (Brief recess held)

17 DEPUTY COMMISSIONER REED: Okay.
18 We're going to reconvene here. We do have one
19 more speaker at this time. You had come up to
20 the desk here to my right. Joanne Haas,
21 healthcare chair for the League of Women Voters.
22 Welcome, and thank you, Joanne.

23 MS. HAAS: I will be very brief, and
24 this is really in response to what has been said

1 here tonight. Several of the speakers have
2 commented that their questions have been
3 answered. But for the people who are not here,
4 but would like to know about how they can hear
5 what's been said, and have their questions
6 answered, I would like to suggest to -- formally
7 to Blue Cross that they perhaps take out an ad in
8 the newspaper, and say -- spell out where this
9 information will be available, on their website
10 and the Insurance -- I don't know how the
11 Insurance Department wants to handle it, but they
12 need to also let people know that the information
13 is available on the website, including the
14 verbatim transcript of the hearing.

15 If we rely on the media, we might or
16 might not learn that. We just know that there
17 was a meeting, and there were some speakers, and
18 a little bit of what was said.

19 But I do think it would be well
20 worth while for the actual website addresses and
21 the links to be placed where people can read the
22 paper, or at least see it in the paper, and find
23 out how to access that information.

24 DEPUTY COMMISSIONER REED: Thank you

1 for your comments. And I will also just add,
2 rather than summarize, because we certainly
3 appreciate these comments. And obviously, any
4 time you get more comments on this, the better.
5 So I do appreciate your comments.

6 I will tell you this: That the
7 Department will allow additional comments or
8 questions to the Department by the end of this
9 month, on May 31st, 2011. So we will keep the
10 record open until then for additional comments.

11 And your comments and those of
12 others tonight have been of great assistance to
13 the Department as we complete our review of the
14 proposed affiliation between Blue Cross Blue
15 Shield of Delaware and Highmark. So, as I said,
16 we will keep the record open until May 31st to
17 receive additional comments.

18 And on behalf of Commissioner
19 Stewart and I, we would like to thank everyone
20 for attending tonight's public session, and to
21 say that we truly appreciate everyone's comments.

22 Having the record reflect that we
23 have no other public comments here tonight, then
24 we are adjourned.

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Thank you again.

(Hearing concluded at 7:25 p.m.)

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REPORTER'S CERTIFICATE

I, JULIANNE LaBADIA, Registered Diplomate Reporter and Notary Public, do hereby certify that the foregoing record, pages 1 through 65 inclusive, is a true and accurate transcript of my stenographic notes taken on May 19, 2011, in the above-captioned matter.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 20th day of May, 2011, at Wilmington.



Julianne LaBadia

Julianne LaBadia, RDR, CRR